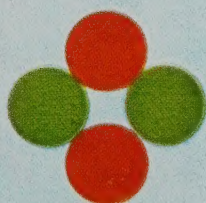




**Sobeys Stores Limited
1977 Annual Report**

Check Us Out

Sobeys



Contents

1977 in Brief	1
Report to the Shareholders	2
Financial Highlights	3
Operating Report	5
Five Year Summary	5
Financial Statements	6

SOBEYS STORES LIMITED

and Subsidiary Companies
1977 Annual Report

Sobeys Stores, a Nova Scotia based retail and wholesale grocery company, is engaged in the distribution of brand name, private label and other food, fast food and non food items throughout the four Atlantic Provinces, the Gaspé coast of Quebec and southern Ontario.



1977 in Brief	1977	1976
Sales ('000)	\$236,806	\$209,369
Earnings from operations ('000)	1,087	689
Earnings per common share	1.30	.79
Working capital ('000)	5,380	397
Total assets ('000)	39,562	37,108
Equity per common share	15.20	11.20

Report to The Shareholders



William M. Sobey
Chairman and Chief Executive Officer
(seated)

David F. Sobey
President
(standing)

Sales of **\$236.8** million during the fifty-three weeks ended May 7, 1977 increased **13.1%** over the prior year.

Earnings from operations amounted to **\$1,087,000** or **\$1.30** per Common Share, recording a substantial improvement over the prior year.

In addition, the sale of the Atlantic Shopping Centres, and other transactions, produced non-recurring extraordinary earnings of \$2,229,000 or \$2.88 per share.

Cash Flow from operations increased to **\$2,727,000** or **\$3.52** per share and Working Capital amounted to **\$5,380,000** at year end.

Funds Used for Preference and Class "A" Common Share Dividends amounted to **\$286,000**. Long Term Debt was reduced by **\$252,000**; Working Capital increased by **\$4,983,000** and Fixed Asset Additions totalled **\$2,087,000**.

Retail Operations continue to expand in the Atlantic Provinces. Two new units were opened; six modernized; three enlarged and one unit closed during the year. The Company now operates sixty-three Sobeys supermarkets.

Wholesale Operations have expanded and facilities have been modernized during the past two years resulting in volume growth and earnings improvement. This trend is expected to continue.

Fast Food Operations are carried on in several shopping centres by subsidiary Joy Stores. The recently obtained Pizza Hut® franchise for Atlantic Canada will increase activity in this rapid growth segment of food distribution.

Real Estate Operations are of continuing importance to the Company. The Company maintains an active land bank of sites for future use. The sale of Atlantic Shopping Centres has improved our ability to finance future expansion of operations.

Future Outlook for the Company remains positive as our program of expansion and modernization of operations continues. Through planned growth and effective cost management, continued earnings improvement will be attained.

Management and Employees form a strong team of **2,420** valued individuals working to make the Company successful. Their efforts, which makes possible the Company's growth and achievements, are appreciated.

On behalf of the Board,

William M. Sobey

David F. Sobey

Financial Highlights

Distribution of Revenue ('000)

			10%
Cost of sales, selling and administrative expenses	\$232,915	98.4%	
Depreciation	\$1,516	0.6%	
Interest	\$801	0.3%	
Income taxes	\$895	0.3%	
Earnings	\$1,087	0.4%	

Source of Working Capital ('000)

Earnings from operations	\$1,087	12.4%	
Depreciation	\$1,516	17.3%	
Reduction of equity in non-consolidated subsidiary	\$1,687	19.2%	
Sale of Atlantic Shopping Centres	\$4,229	48.1%	
Deferred Taxes	\$74	0.8%	
Other	\$194	2.2%	

Use of Working Capital ('000)

Property and equipment acquired	\$2,087	23.8%	
Repayment of long term debt	\$252	2.9%	
Investments and advances	\$1,170	13.3%	
Dividends and other	\$295	3.3%	
Working Capital Retained	\$4,983	56.7%	

Food Distribution is Our Business

Sobeys Stores

Sixty-three retail supermarkets operating throughout the Atlantic Provinces and the Gaspé coast of Quebec

Lumsden Brothers

Wholesale distribution of frozen foods, produce and groceries to 750 retail grocers in southern Ontario and the Bruce Peninsula

T.R.A. Foods

Together with subsidiary, Johnson & MacDonald, wholesale grocery distribution to over 500 retail grocers in mainland Nova Scotia and Cape Breton

Joy Stores

Fast food from "Take-A-Break" outlets and soon pizza, pastas, and sandwiches from Pizza Hut®



Operating Report

Sobeys Stores

Earnings continue to show improvements. Real sales in our existing stores have increased and additional new sales have been added with the opening of stores in Amherst, Nova Scotia and Grand Falls, Newfoundland.

Improvements in productivity have been obtained at store level and the distribution centre through more efficient management systems.

The expansion of private label brands, using the Company logo, and the standardization of Company colours and decor have strengthened the Sobeys identity in Atlantic Canada.

A 25,000 sq. ft. Sobeys store will open in Saint John, New Brunswick, and a 20,000 sq. ft. K-Mart Foods in Yarmouth, Nova Scotia. Both will be located in major shopping malls.

The Company has launched a vigorous training and development program for its employees. We are confident that this investment will provide the necessary human resources for continued growth and development.

Lumsden Brothers

The year was a difficult period for the Company and its independent retailers. Sales showed a modest increase and operating results improved.

The new Produce and Cash and Carry divisions showed substantial sales increases and are encouraging investments for the future.

Our affiliated voluntary group stores showed gains in the Foodland and Clover Farm Group, while Best-Valu Stores remained constant.

The outlook for 1978 remains positive; increased sales and profits are anticipated.

T.R.A. Foods

T.R.A. and subsidiary, Johnson & MacDonald, continued to expand service to retail stores in Mainland Nova Scotia and Cape Breton. Sales and profits showed modest improvement, with 1978 expected to increase this trend.

The largest Company-owned retail store was destroyed by fire with this lost volume being gained back with further penetration of the independent retail trade.

Joy Stores

The acquisition of the Atlantic Canada franchise for Pizza Huts® begins a new period of growth in the Company's Fast Food operations.

The first unit will open in Halifax/Dartmouth in late 1977 with two units scheduled for 1978.

Consolidated Five Year Summary

	1977	1976	1975	1974	1973
Operations ('000)					
Sales	\$236,806	\$209,369	\$181,337	\$151,927	\$126,840
Interest on long term debt	381	401	2,741	2,279	1,140
Depreciation	1,516	1,695	1,952	1,630	1,245
Earnings from operations	1,087	689	758	425	742
Cash Flow from operations	2,727	2,452	3,108	2,487	2,424
Per Common Share					
Earnings from operations	1.30	.79	.88	.45	.85
Cash Flow from operations	3.52	3.16	4.01	3.21	3.13
Dividends — Class 'A'	.40	.40	.40	.40	.40
Net Equity	15.20	11.20	10.83	9.72	9.24
Financial Position ('000)					
Working Capital	5,380	397	1,044	1,407	1,574
Total Assets	39,562	37,108	70,319	66,994	52,937
Long term debt	4,209	4,461	33,659	31,470	22,720

1977 and 1976 have been restated to account for Atlantic Shopping Centres Limited on the equity basis and to give effect to the adjustment of prior years.

Consolidated Statement of Earnings

53 Weeks Ended May 7, 1977

	1977 (in thousands)	1976
Revenue		
Sales	\$236,806	\$209,369
Other revenue	451	538
	<u>237,257</u>	<u>209,907</u>
Cost of sales, selling and administrative expenses	232,915	206,470
	<u>4,342</u>	<u>3,437</u>
Depreciation	1,516	1,695
Interest on long term debt	381	401
Interest on current debt	420	490
	<u>2,317</u>	<u>2,586</u>
	2,025	851
Income taxes (Note 7)	895	160
	<u>1,130</u>	<u>691</u>
Extraordinary items (Note 8)	2,229	
	<u>3,359</u>	<u>691</u>
Minority interest	43	2
	<u>3,316</u>	<u>689</u>
Net earnings including extraordinary items (Note 8)		
Deduct: Extraordinary items	2,229	
Earnings from continuing operations	\$ 1,087	\$ 689
Earnings per common share from continuing operations	\$ 1.30	\$.79
Cash flow per common share from continuing operations	\$ 3.52	\$ 3.16

Consolidated Statement of Retained Earnings

53 Weeks Ended May 7, 1977

	1977 (in thousands)	1976
Balance, beginning of year		
As previously reported	\$6,360	\$5,957
Prior period adjustment (Note 6)	119	119
As restated	6,241	5,838
Net earnings	3,316	689
Transfer from capital redemption reserve fund	11	
	<u>9,568</u>	<u>6,527</u>
Dividends paid		
Preference shares	78	78
Class "A" common shares	208	208
Redemption of preference shares	9	
	<u>295</u>	<u>286</u>
Balance, end of year	<u>\$9,273</u>	<u>\$6,241</u>

Consolidated Statement of Changes in Financial Position

53 Weeks Ended May 7, 1977

	1977 (in thousands)	1976
Source of working capital		
Cash flow from operations consisting of:		
Earnings from operations	\$1,087	\$ 689
Depreciation	1,516	1,695
Deferred income taxes	74	80
Minority interest	50	(12)
	<u>2,727</u>	<u>2,452</u>
Reduction of equity in non-consolidated subsidiary	1,687	
Net proceeds on sale of Atlantic Shopping Centres Limited	4,229	
Reduction of income taxes by loss carry-forward	73	
Contributed surplus of subsidiary	71	
	<u>8,787</u>	<u>2,452</u>
Use of working capital		
Property and equipment acquired	2,087	1,397
Repayment of long term debt (including current maturities)	252	558
Investments and advances	1,170	(40)
Dividends paid	286	286
Redemption of preference shares	9	
	<u>3,804</u>	<u>2,201</u>
Net working capital provided during year	4,983	251
Working capital, beginning of year	397	146
Working capital, end of year	<u>\$5,380</u>	<u>\$ 397</u>

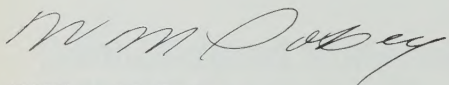
Consolidated Balance Sheet

May 7, 1977

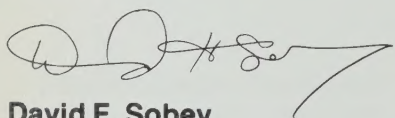
Assets

	1977 (in thousands)	1976
Current		
Cash	\$ 2,571	\$ 2,619
Marketable securities, at cost (market value \$5,437; 1976 \$1,531)	5,261	1,264
Receivables	3,581	5,348
Inventories (Note 1)	14,242	12,674
Prepaid expenses	1,035	312
	<u>26,690</u>	<u>22,217</u>
Investments and advances	1,239	3,829
Property and equipment, at cost		
Land	394	617
Buildings and facilities	4,282	4,045
Equipment	12,489	11,285
Leasehold improvements	2,809	2,796
	<u>19,974</u>	<u>18,743</u>
Less: Accumulated depreciation	8,341	7,681
	<u>11,633</u>	<u>11,062</u>
	<u>\$39,562</u>	<u>\$37,108</u>

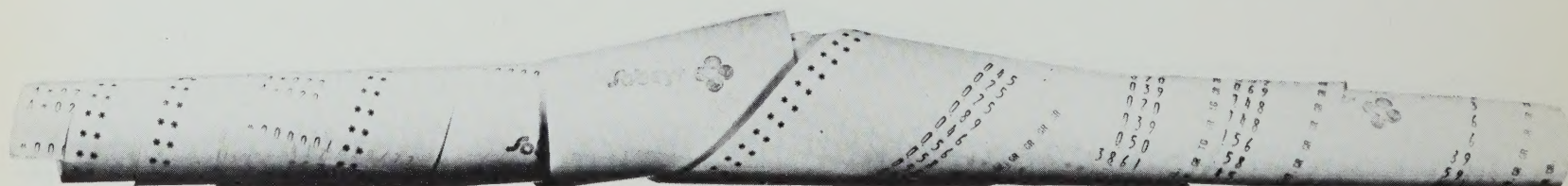
On Behalf of the Board



William M. Sobey
Director



David F. Sobey
Director



Liabilities

Current

Short term borrowing (Note 2)
Accounts payable and accrued charges
Income taxes payable
Long term debt due within one year
Current portion of deferred income taxes

1977
(in thousands) 1976

\$ 4,229 \$ 5,283
16,583 16,186
307
52 351
139

21,310 21,820

Long term debt (Note 3)

4,209 4,461

Minority interest

412 362

Deferred income taxes

615 541

Shareholders' Equity

Capital stock (Note 4)
Capital redemption reserve fund
Contributed surplus
Retained earnings

3,663 3,672
9 11

71

9,273 6,241

13,016 9,924

\$39,562 \$37,108

Auditors' Report

To the Shareholders of
Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 7, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the 53 weeks then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary company, Lumsden Brothers Limited.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at May 7, 1977 and the results of its operations and changes in financial position for the 53 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company

H. R. Doane and Company

Chartered Accountants

New Glasgow, Nova Scotia
July 8, 1977

Notes to Consolidated Financial Statements

May 7, 1977

1. Accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies.

The equity method of accounting is used for investments in joint venture companies and in a company in which less than 51% of the voting shares are held.

Depreciation and amortization

Depreciation of buildings and equipment is calculated by the straight line method. The rates used are estimated to be sufficient to depreciate the cost of the assets to residual value over their useful lives which ranges from three to forty years.

Leasehold improvements are amortized over the term of the related lease for improvements prior to May 3, 1975 and for a term not greater than fifteen years for improvements subsequent to that date.

Inventories

Inventories are valued at the lower of cost and net realizable value.

2. Short term borrowing

Short term borrowing consists of:

	1977	1976
Bank loans	\$3,728,618	\$3,701,370
Bankers' acceptances	500,000	1,500,000
Other loans		82,000
	<u>\$4,228,618</u>	<u>\$5,283,370</u>

Bank loans and bankers' acceptances are secured by assignment of certain receivables, marketable securities and a specific mortgage and first floating debenture against assets of a subsidiary company.

3. Long term debt

Sobeys Stores Limited
Sinking fund debentures

Series	Maturity	1977	1976
D	6% May 1, 1977		\$ 345,000
E	6% March 1, 1981	\$ 520,000	550,000
F	6% April 1, 1984	610,000	640,000
G	5 3/4% April 15, 1985	320,000	335,000
H	6% November 1, 1985	670,000	700,000
I	7 1/4% June 15, 1987	730,000	760,000
J	8 1/2 % March 1, 1989	760,000	790,000
		<u>3,610,000</u>	<u>4,120,000</u>
Less: Debentures held for sinking fund purposes		219,702	205,391
		<u>3,390,298</u>	<u>3,914,609</u>
Mortgages			
9 1/4% and 9 1/2% maturing in 1977 amortized to 1992		197,711	213,120
10 3/4% maturing in 1980 amortized to 1995		672,737	684,650
		<u>4,260,746</u>	<u>4,812,379</u>
Current maturities (less debentures held for sinking fund purposes)		51,702	351,266
		<u>\$4,209,044</u>	<u>\$4,461,113</u>

The sinking fund debentures and mortgages are secured by land and buildings. Annual debt repayment in the next five years is:

1978 — \$188,702; 1979 — \$192,020; 1980 — \$195,262; 1981 — \$598,894; 1982 — \$172,961.

Annual debt repayments do not include mortgage maturities as it is anticipated that these mortgages will be renewed upon maturity.

4. Shareholders' equity

1977

1976

Capital stock

Authorized

237,231 cumulative redeemable non-voting preference shares of \$20 par value each, issuable in series

750,000 Class "A" non-voting common shares without nominal or par value

500,000 Class "B" voting common shares without nominal or par value

Issued and outstanding

61,786 6 1/4% preference shares, 1966 series

520,862 Class "A" common shares

254,000 Class "B" common shares

\$1,235,720

\$1,244,620

1,739,862

1,739,850

687,200

687,200

\$3,662,782

\$3,671,670

The 1966 series preference shares may be called at par at any time and the company is required to provide a \$30,000 fund each year from which shares may be purchased for redemption.

The company has reserved a maximum of 20,000 unissued Class "A" common shares for the exercise of share purchase warrants, issued with the Series "J" sinking fund debentures, which provide for the purchase of the reserved shares at a price of \$12 per share up to March 1, 1979. If these warrants were exercised, earnings per share would be diluted by \$.03.

5. Commitments and contingencies

Joint ventures

The company is obligated to jointly finance construction cost overruns.

Long term leases

During the current year, the company paid \$3,405,000 in lease payments under agreements extending beyond five years from the balance sheet date.

Contingent liabilities

The company has undertaken to provide cash to meet any obligations which Canadian Shopping Centres Limited or Sobey Leased Properties Limited are unable or fail to meet until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be by purchase of fully paid non-assessable 6% redeemable non-voting preference shares. The aggregate outstanding principal amounts of these debentures is \$3,204,500.

The company is contingently liable as guarantor of loans, which are secured by first mortgages, amounting to \$5,850,000. As at May 7, 1977, outstanding loans supported by these guarantees amounted to \$5,100,000.

6. Prior period adjustment

Adjustment of accounting for leasehold improvements, real estate taxes and certain accruals (net of income tax)

\$291,307

Income tax refund

(172,427)

\$118,880

7. Income taxes

As at May 7, 1977, a subsidiary had accumulated losses of \$129,000 which may be applied to reduce future income taxes payable.

8. Extraordinary items

Gain on sale of Atlantic Shopping Centres Limited

\$2,322,984

Other (net)

(93,812)

\$2,229,172

The net earnings per share for the year including the extraordinary items of a non-recurring nature are \$4.18.

9. Anti-inflation legislation

The company is subject to the Federal Anti-Inflation Legislation which controls prices, profits, dividends and compensation in the company and its subsidiaries.

10. Financial statement presentation

The 1976 accounts have been restated to present Atlantic Shopping Centres Limited on the equity basis and to give effect to the adjustment of prior years.



Sobeys Stores Limited

Head Office
115 King Street
Stellarton, Nova Scotia
B0K 1S0
Telex 019-36536
Telephone 902 752-8371



Directors

Merritt G. Crawford
New Glasgow, Nova Scotia

William G. Lumsden
Burlington, Ontario

Arthur R. Lundrigan
Corner Brook, Newfoundland

J. Skiffington Murchie
New Glasgow, Nova Scotia

Henry B. Rhude
Halifax, Nova Scotia

David F. Sobey
New Glasgow, Nova Scotia

Donald R. Sobey
Stellarton, Nova Scotia

Frank H. Sobey
Abercrombie, Nova Scotia

William M. Sobey
Stellarton, Nova Scotia

Charles E. Stanfield
Truro, Nova Scotia

Arthur Steele
Middleton, Nova Scotia

Officers

Frank H. Sobey
Honorary Chairman

William M. Sobey
Chairman and Chief Executive Officer

David F. Sobey
President

J. Skiffington Murchie
Executive Vice-President

D. B. Eddy
Vice-President, Personnel

Frank J. Hickey
Vice-President, Merchandising

Merritt G. Crawford
Treasurer

J. Robert MacMillan
Secretary

Auditors
H. R. Doane and Company

Transfer Agent and Registrar
Montreal Trust Company
Montreal — Toronto
Saint John — Halifax

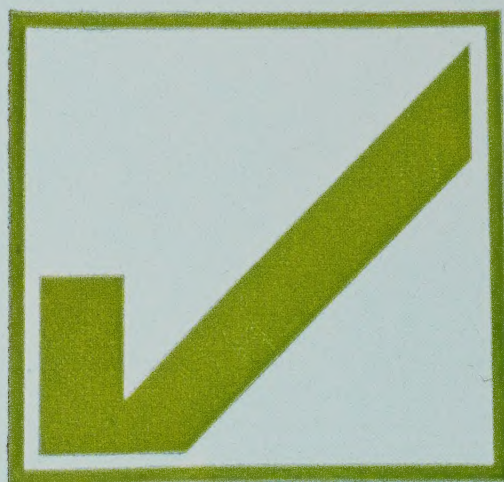
Bankers
The Bank of Nova Scotia

Design
Bob Sisk/Visual Communications

Photography
Graham Lavers
Focus Photography Limited

Printing
Earl Whynot & Associates Limited

Printed in Atlantic Canada



Check Us Out

Sobeys

